

**CITY OF LODI  
INFORMAL INFORMATIONAL MEETING  
"SHIRTSLEEVE" SESSION  
CARNEGIE FORUM, 305 WEST PINE STREET  
TUESDAY, DECEMBER 19, 2000**

An Informal Informational Meeting ("Shirtsleeve" Session) of the Lodi City Council was held Tuesday, December 19, 2000 commencing at 7:02 a.m.

**A. ROLL CALL**

Present: Council Members – Hitchcock, Howard, Land (arrived at 7:08 a.m.), Pennino and Mayor Nakanishi

Absent: Council Members – None

Also Present: City Manager Flynn, City Attorney Hays and City Clerk Blackston

**B. CITY COUNCIL CALENDAR UPDATE**

City Clerk Blackston reviewed the weekly calendar (filed).

**C. TOPIC(S)**

**C-1 "Electric Utility Update"**

Electric Utility Director Vallow reported that since last summer the price for natural gas has risen from \$3 to \$60 per million British Thermal Units (BTU). It costs \$850 dollars a megawatt hour to generate from that resource, which is equivalent to 85 cents per kilowatt hour (kWh). Currently, ratepayers are paying 5.9 cents per kWh, while electric utility companies buy it on the market for 85 cents. Mr. Vallow projected that the worse case scenario would be that Lodi would have to generate its power from the combustion turbine, which is the most expensive resource.

In reply to Mayor Nakanishi, Mr. Vallow explained that Electric Utility's contract with California Independent System Operator (ISO) includes two options when they request generation of power. Electric Utility can choose to either, 1) take market cost, or 2) cover their cost.

Mr. Vallow warned that capacity will be tight this coming summer. Both PG&E and Southern California Edison (SCE) are \$6 billion or more in debt. Last week power marketers in the northwest would not send power to California because electric utility companies did not have enough credit strength. The Secretary of Energy diverted the crisis by ordering generators to send power.

Lodi's December 2000 power pre-bill was twice as high as it has ever been before. In an effort to mitigate the recent extraordinary costs, Electric Utility sold hydro electricity to the power markets on Thursday for \$685 on-peak, \$450 off-peak, which averages out to \$650 a megawatt hour for the month of December and a portion of January. Mr. Vallow explained that Electric Utility generates hydro electricity by releasing water, which runs downhill through turbines and into the river. Approximately 16% of Lodi's electricity is derived through dams and production of hydro electricity. This is particularly important during the summer months.

Council Member Hitchcock asked what the end result might be over a two-year period.

Mr. Vallow projected that if the market remained in its current condition, Lodi could end up with \$4.8 million worth of "negativity" for this fiscal year, and the same amount in the next fiscal year. The Electric Utility risk profile recently indicated a number ranging from -\$32 million to -\$8 million for the calendar year. He reported that the annual risk profile (splitting two fiscal years) is -\$9 million to a positive \$6 million. Mr. Vallow summarized that without any rate movement, there would likely be \$3 to \$4 million in over budget costs without considering revenues from other sources. He predicted, however, that revenues would not exceed costs for the year.

In response to Mayor Nakanishi, Mr. Vallow explained that the General Fund transfer is basically "earnings per share". Earnings for investor-owned utilities have not been negatively effected. Businesses such as Electric Utility operate to return something to their investors, which in our case, are the ratepayers.

Council Member Hitchcock asked whether we can still service debt, maintain our rates, and make the General Plan transfer – with the only negative effect being not building as large a reserve as might have been hoped for. Mr. Vallow replied in the affirmative.

Mr. Vallow emphasized that Electric Utility took a stance early on with regard to deregulation and competitive pressures, that the very last thing they would consider would be rate increases or threats to the General Fund transfer. Mr. Vallow forecasted that there will be supply problems for several more years. Natural gas is the main source of electricity generation in California. A new pipeline going to Chicago siphons off approximately one-fourth of the natural gas that California used to expect during the winter months. He warned that the problem will worsen next year when another pipeline is completed that will take natural gas to the Denver area. California imports 30% of its power from out of state. The northwest is also growing and using more of their generation, which then decreases what they can ship to California. Three utilities in the northwest raised their rates last week between 20-40%.

Electric Utility's strategy for the future includes pursuing power sales contracts. Mr. Vallow stated that negotiations with Enron are moving forward. He reported that capital dollars are secure and money that was borrowed through bond financing is not at risk.

C-2 "Agenda Reorganization"

City Manager Flynn suggested that this matter be rescheduled for the first meeting in January.

Council Member Pennino requested that the agenda reorganization proposal be provided to Council for review prior to the meeting.

**D. COMMENTS BY THE PUBLIC ON NON-AGENDA ITEMS**

None.

**E. ADJOURNMENT**

No action was taken by the City Council. The meeting was adjourned at approximately 7:55 a.m.

ATTEST:

Susan J. Blackston  
City Clerk